War Influences Dominate Foreign Trade

By Hal B. Lary

TWO years of world conflict have brought about vast changes not only in the composition and distribution of United States foreign trade but also in the conditions under which it is conducted.

In the early months of the war these changes resulted chiefly from external forces and only to a minor degree from measures taken in this country. The arms embargo imposed after the outbreak of hostilities under the Neutrality Act of 1937 was short-lived, while the restrictions on credits and on movements of American vessels and American citizens embodied in the revision of that Act in November 1939 have had only incidental and comparatively slight effect on the course of trade.

Of far more decisive influence in the early stages of the conflict were the measures of economic warfare taken by the United Kingdom and France—the blockade against Germany, restrictions on imports of nonessentials, and heavy war orders in the United States. These measures cut off or seriously curtailed long-established markets for many American goods, particularly agricultural products, and greatly stimulated the production and export of military supplies and other war essentials.

Following the spread of Nazi conquest, the British blockade against Germany was ultimately extended to virtually the entire European Continent, which in 1938 had taken $776,000,000 of American exports and supplied $446,000,000 of American imports. At the same time the British procurement program in the United States was enormously expanded—orders by the British Government up to September 15, 1941, totaled some $3,674,000,000,[1] of which by far the greater part was placed after Germany's victorious campaigns in the spring of 1940.

These measures of external, now chiefly British, origin have continued up to the present to be among the most powerful forces affecting American foreign trade, restricting it in some respects and greatly expanding it in others.

In the meantime, however, the requirements of national security in the face of military developments abroad have led to the adoption by the United States of far-reaching measures which, directly or indirectly, are having an increasingly dominant influence on the course and conduct of trade. Some of these measures are restrictive, others stimulative, in their effects on exports and imports, but all are directed toward the basic and closely related objectives of securing national and hemispheric defense and supporting nations resisting aggression.

[1] Including French orders taken over by the British after the fall of France.

Lend-Lease and Foreign Trade.

Shortly after repeal of the arms embargo the President appointed a special Liaison Committee to assist the United Kingdom and its allies in procuring military supplies here and to coordinate their purchases with our own defense program. While official advice and assistance were thus provided, contracts covering these orders were signed by the representatives of the foreign governments concerned, and these governments paid for such orders out of their own resources.

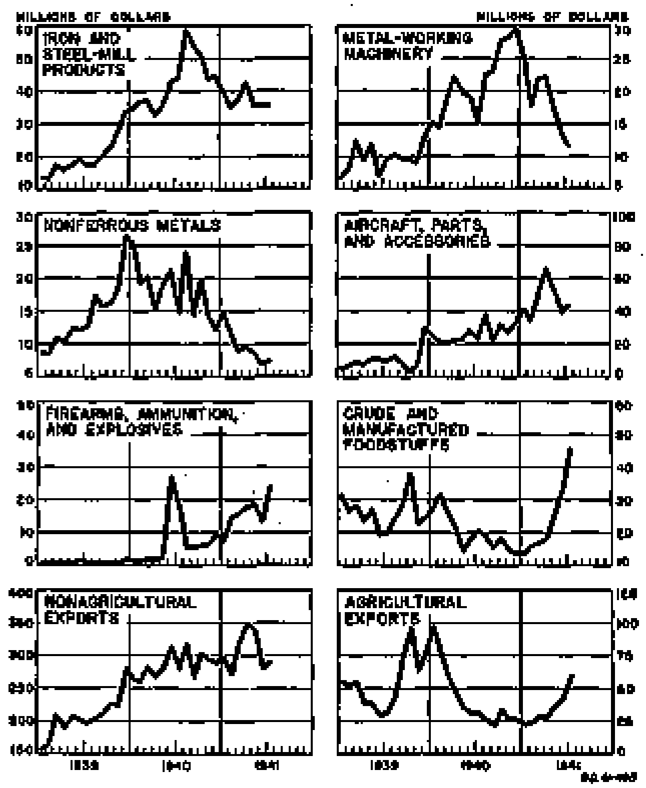

Figure 6.—Value of Exports of U. S. Merchandise by Selected Groups.

Source: U. S. Department of Commerce.

Very different procedures involving a far greater degree of United States Government control were set up after passage of the Lend-Lease Act of March 11, 1941. Under this measure procurement of goods for transfer to countries eligible for lend-lease aid is undertaken and paid for directly by the United States Government.[2] To this end Congress on March 29 appropriated $7,000,000,000—a sum approximately equal to the total gold and dollar resources which had been available to the British Empire at the beginning

[2] Details of lend-lease procurement procedures are given in the first and second reports under the Act submitted to Congress by the President under dates of June 10, 1941, and September 11, 1941, respectively.

of the war. In his second report under the Lend-Lease Act, transmitted to Congress on September 15, the President stated that up to the end of August $6,281,000,000 of this amount had been allocated, and that legal commitments for $3,556,000,000 had been made. Three days later the President submitted a request for an additional appropriation of $5,985,000,000 for lend-lease purposes.

Sufficient time has not yet elapsed for the lend-lease program to exert its full effect on foreign trade.[3] Defense articles exported under the act from March 11 through August 31, 1941, totaled $190,000,000, but such shipments were far exceeded by deliveries on earlier orders placed by the British from their own resources. Lend-lease materials are beginning to flow from factories and shipyards, however, and shipments of these materials will grow from day to day until they constitute the most important single element in our exports. An increasingly large part of our export trade is therefore of a very special character, representing not merely intergovernmental transactions but more specifically goods purchased by the United States Government and transferred to governments of foreign countries in whose defense the United States is vitally interested.

Establishment of Export Control.

Exports to countries outside the "lend-lease area" have also come increasingly under the influence of extraordinary forces generated by the war. The determination to provide assistance to nations resisting aggression and the vastly accelerated pace of our own defense program have strained productive capacity and necessitated measures to ensure that materials and equipment are employed in the manner best serving the national interest. Obversely, it is no less important that our material resources should not be permitted to fortify those nations bent on aggression.

Pursuit of these objectives led to the export licensing control system, authorized by law of July 2, 1940. This system is designed to prevent the exportation, except under license, of any military equipment, or machinery, tools or materials necessary for producing or operating such equipment, as might be designated by the President in the interest of national defense.

An original list of articles and materials subject to the control system became effective July 5 and has been greatly expanded by subsequent orders. The ratio of exports under license to total exports rose from about 16 percent in July 1940 to 40 percent in July 1941 (see figure 7). The schedule has since been further extended until, at the end of September, it applied to commodities which constituted about 38 percent of all exports in the first 5 months of the year.[4] It now covers practically all metals and manufactures, nonmetallic minerals, machinery and vehicles, rubber and manufactures, wood pulp, chemicals and related products (except certain pharmaceuticals and medicines), edible oils and fats, and many other commodities.

With respect to the United Kingdom and other countries actively resisting aggression, the controlled items are made available to the fullest extent possible to meet their war requirements as mutually agreed upon.

On the other hand, less favorable treatment is accorded of necessity to countries whose defense needs appear less urgent. To a limited degree the restrictive effects of the control have been lifted through general licenses, authorizing exports of particular items to specified countries. A broad application of this method has not been possible, however, both because of this country's immense requirements and because the other countries concerned do not in all instances provide effective restrictions against reexports to the Axis powers.[5]

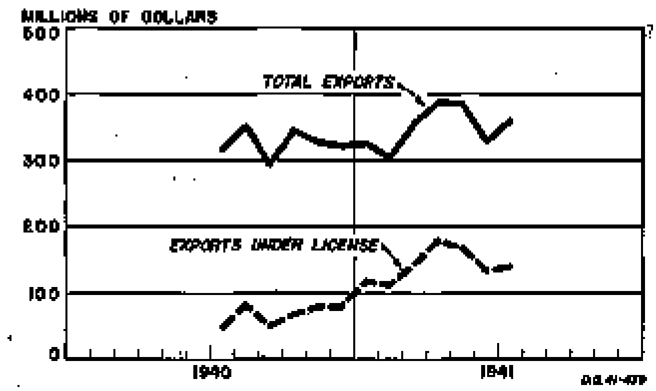

Figure 7.—Value of Total Exports and Exports Under License, Including Reexports.

Source: All data except "Exports under License" from July through November 1940, U. S. Department of Commerce; "Exports under License" for this period, Administrator of Export Control.

Moreover, even though exportation from the United States may be permitted under general or specific license, the execution of orders for nondefense items, for export as well as for domestic use, has become increasingly difficult because of priorities granted defense production in the use of essential materials.

Many of the countries adversely affected by export control and priorities have long relied in large measure on imports from the United States to cover their requirements of industrial and consumer goods, and this dependence has been greatly increased by the interruption in trade with Europe. The consequent dislocation in the economic life of these countries, particularly the other American republics, has been a source of increasing concern to the United States, and special measures and procedures have been inau-

[3] See discussion on page 3 of this issue.

[4] This figure, based on exports earlier in the year rather than current trade, is not strictly comparable with the percentages covering actual exports under license in July 1941 and previous months.

[5] The Under Secretary of State proposed on July 10, 1941, in the Inter-American Financial and Economic Advisory Committee that consideration be given to the "creation of an inter-American system of export control involving strict restriction and control of the exportation of products outside of the Western Hemisphere with a maximum of free commerce within the hemisphere which is compatible with defense requirements."

gurated with a view to meeting their most essential requirements insofar as possible.

The Under Secretary of State announced on July 17, 1941, that the Government was establishing two parallel procedures for handling export licensing and priorities matters relating to exports to the other American republics, one being for government and the other for nongovernment requirements.[6] It was requested that all matters pertaining to government needs or any projects which the governments might wish to sponsor be taken up by their missions directly with the Department of State. The announcement further stated: "To the extent that it is agreed to be desirable, certain of the listed items will be procured by the Government of the United States directly for the account of the other American Government in question. Other items on the lists, subject to the approval of the Department of State, will be transmitted to the Administrator of Export Control for preferential processing, as necessary, through the Office of Production Management, the Army and Navy Munitions Board, and other appropriate agencies."[7]

The procedure for dealing with nongovernment requirements of the Latin American republics was to be handled by the Administrator of Export Control. The Administrator undertook to provide information and services on all aspects of export problems, including priorities questions and shipping availabilities, and to facilitate a maximum of free movement within the Western Hemisphere compatible with defense requirements. This procedure was implemented on August 11 by the establishment of a clearance service in the Office of Export Control whereby priority ratings might be granted export proposals after clearance with other interested agencies.

With the transfer of the Office of Export Control to the Economic Defense Board, announced on September 17, it was indicated that the endeavor to meet the needs of the other American countries and other friendly nations would be pursued even more vigorously and systematically than before.[8]

[6] These procedures are also available to countries other than the American republics.

[7] Orders by certain foreign governments, including those of Latin American countries, may also be handled through the lend-lease mechanism on a "cash reimbursement" basis, which provides for the procurement of an item in precisely the same way as that used for other lend-lease operations, with the exception that the foreign government deposits cash with the United States Treasury against the value of the goods to be purchased. The second report under the Lend-Lease Act, transmitted on September 15, indicated that four foreign governments—Brazil, Canada, the Dominican Republic, and the Netherlands—had made purchases on the "cash reimbursement" basis. The report commented on the advantages of this procedure as follows: "The use of the lend-lease mechanism for the making of such purchases is beneficial to the United States defense program because, under such a system, foreign orders, even though paid for in advance, become United States Government contracts under the supervision and control of the United States Government agencies. This obviates the need for separate foreign priority ratings as well as limiting the chances for conflicting production, exorbitant prices, and the misuse of raw materials, labor, and plant facilities."

[8] The executive order making the transfer specifically instructed the Economic Defense Board to prepare estimates of materials and commodities required for export purposes in the interest of economic defense, exclusive of lend-lease operations. It may be noted also that the Under Secretary of State on August 25 gave official assurance that "goods of which the United States is the principal or sole supplier * * * will be made available on an equal basis to the people of the other American republics as liberally as they are to the people of this country."

The Stock-Pile Program and Preclusive Buying.

On the import side, the parallel to the export control system is furnished by the program for the accumulation of reserves of strategic and critical materials.

The first endeavors to build up reserves of these commodities were made shortly before the war began. The Strategic Materials Act, which became law in June 1939, authorized the appropriation of $100,000,000 over a 4-year period for this purpose, but limited the first year's appropriation to $10,000,000. Also in June 1939, the Governments of the United States and the United Kingdom concluded an agreement for the exchange of 600,000 bales of American cotton against something over 85,000 long tons of crude rubber from British Malaya. Receipts of crude rubber under this arrangement have been consummated.

It was not until after Germany's victories in the spring of 1940, however, that the United States embarked on a large-scale program for building up stock piles of vitally needed defense materials. Under legislation approved June 25, 1940, the Reconstruction Finance Corporation set up three subsidiaries for this purpose: The Rubber Reserve Co., the Metals Reserve Co., and the Defense Supplies Corporation. Commitments totaling more than $1,100,000,000 for the purchase of materials from abroad had been entered into by these three companies through September 13, 1941.[9]

One of the largest stock-pile items is rubber, for which the Rubber Reserve Co. has undertaken to purchase up to 430,000 tons, at a cost of approximately $190,000,000, in southeastern Asia. On September 13, 1941, 140,318 tons had been delivered, 66,391 tons were in transit, and 150,601 tons awaited shipment. Deliveries on these orders are expected to be completed by the middle of 1942. In addition, the company has agreed to buy up to 30,000 tons of Brazilian rubber in 1941, 1942, and 1943 at a maximum cost of about $20,000,000.[10]

Commitments by the Metals Reserve Co., through September 13, 1941, for the purchase of materials from other countries totaled approximately $880,000,000, distributed as follows: Refined tin, $207,500,000; tin ore, $122,434,000; aluminum, $180,034,000; copper, $140,110,000; tungsten, $113,169,000; manganese ore, $41,766,000; lead, $31,819,000; chrome, $12,015,000; antimony, $6,403,000; zinc ore, $3,843,000, and various other metals.

The Defense Supplies Corporation had made commitments totaling approximately $67,790,000 through September 13, 1941. Of this amount, however, $40,000,000 represented the Corporation's announced willingness to purchase up to 100,000 bales of raw silk now

[9] Report of September 15, 1941, by the Federal Loan Administrator to the President and Congress.

[10] Including receipts under the cotton-rubber exchange agreement, the Government's stock pile of crude rubber at the middle of September was about 230,000 tons. Private stocks, now controlled under the priorities system, have also greatly expanded, amounting to approximately 310,000 tons on August 31—an increase of about [illegible] tons since the Rubber Reserve Co. was established.

in the United States or which may hereafter arrive. Such stocks were frozen by order of the Office of Production Management following interruption of trade with Japan in August. The remainder of the Defense Supplies Corporation's commitments cover mainly commodities which it is in the process of obtaining from abroad, including $10,000,000 of cork, $6,303,000 of nitrate of soda, $3,200,000 of jute, $3,000,000 of South American wool, $1,500,000 of Manila fiber, $1,340,000 of quinine sulphate, and lesser amounts of leather, kapok, diamond dies, and several other items.[11]

The progress made by the three RFC subsidiaries in obtaining deliveries on some of the principal stock-pile items is indicated by figure 8. These purchases, together with small acquisitions by other Government

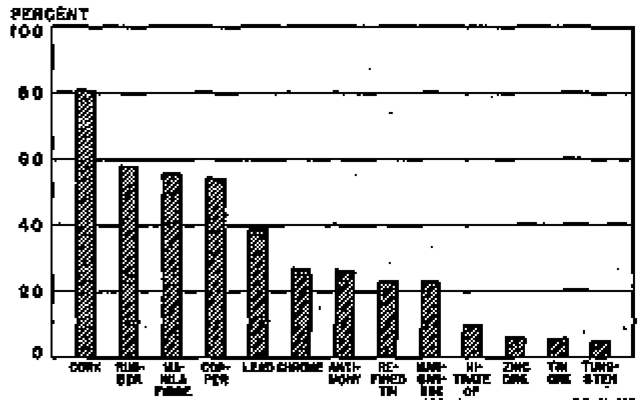

Figure 8.—Percentage of Certain Strategic and Critical Materials Delivered and Afloat to Total Purchases and Commitments (Quantity Basis) by the Reconstruction Finance Corporation, through September 13, 1941.

Note.—Data do not include stock piles or reserves accumulated by Federal agencies other than the Reconstruction Finance Corporation or by private industry.

Source: Federal Loan Agency.

agencies, are obviously accounting for a heavy portion of total imports. While imports on private account have also increased greatly in many cases, contracts by official agencies now cover many of the major foreign sources available. In the case of one commodity the Government has become the sole importer. Under arrangements worked out with the British and Netherland Governments and the International Rubber Regulation Committee, effective June 23, 1941, all exports of crude rubber to the United States from southeastern Asia will be restricted to the Rubber Reserve Co., although shipments will continue to include for a time deliveries on old contracts by private importers.

As in the case of exports under lend-lease, therefore, an increasingly large part of the import trade is being carried on through official channels. Like other measures affecting foreign trade, this development is an inevitable outgrowth of the present emergency. Only the Government has the interest, authority, and resources to store up great reserves of materials and to make satisfactory arrangements for their procurement. The concentration of imports of these materials in official agencies also simplifies distribution problems under the priorities system.

The significance of the stock-pile program lies not only in the accumulation of materials vital for United States defense production but also in its bearing on another important aspect of this country's foreign policy: The prevention of shipments of such materials to the Axis powers. In connection with his proposal on July 19, 1941, for the creation of an inter-American system of export control, the Under Secretary of State urged that each of the American republics establish a system of export control covering its own production of strategic and critical materials. The Under Secretary stated that there were strong markets in the United States for most of these materials and gave assurance that United States Government agencies stood ready to give consideration to purchasing supplies of such commodities under the stock-pile program.

This offer has already been implemented by the negotiation of special agreements with Latin American governments and producers. One of the most complete arrangements of this type is that with Mexico. It was announced on July 14, 1941, that the Metals Reserve Co. and the Defense Supplies Corporation, in conjunction with the State Department, had completed arrangements which, for the following 18 months, would make available to this country or other countries of the Western Hemisphere the exportable surplus of Mexican strategic and critical materials, including antimony, copper, graphite, lead, mercury, tungsten, tin, zinc, and henequen.

Financial Assistance to Foreign Countries.

The raw material producing countries of Latin America, the Far East, and elsewhere have benefited substantially by the stock-pile program and heavier consumption in United States defense industries. Principally because of these factors, imports from Latin American countries in the first half of 1941 were almost 100 percent larger than in the first half of 1939, yielding a substantial excess in favor of that area as a whole and, in conjunction with other factors, greatly easing the exchange difficulties experienced by many of these countries following the outbreak of the war. Imports from the Netherlands Indies and British Malaya have also increased enormously.

The benefits conferred by these purchases, however, are not fully indicated by the import statistics. In several cases the United States has agreed to make substantial advance payments to assist in production or for other purposes. In connection with the purchase of 340,000 tons of aluminum by the Metals Reserve Co. from Canada, for delivery through 1944 and involving approximately $126,000,000, it was agreed to

[11] The Defense Supplies Corporation is also transporting and storing in this country 250,000,000 pounds of Australian wool, of which more than 62,000,000 pounds had already been received as of September 13. The wool belongs to the United Kingdom, but the United States Government is providing for transportation and storage costs, estimated to total about $12,000,000, and has the right to use any part of it that may be required.

advance $50,000,000 to finance the expansion of power and plant facilities. On September 17, 1941, it was announced that the Defense Supplies Corporation had contracted with Amtorg Trading Corporation for the purchase of approximately $100,000,000 of Russian materials and had agreed to advance up to $50,000,000 of this sum for use by the U. S. S. R. in purchasing supplies from this country.

Another RFC subsidiary, the Export-Import Bank, has been active in providing financial aid to the other American countries. Ever since the Bank was established in 1934 it has furnished valuable assistance, although on a limited scale, in financing trade transactions with these countries and other areas. In September 1940 its activities were greatly expanded to alleviate the serious disturbances to the economic life of the Latin American countries resulting from the war. The Bank was authorized by Congress to make loans to assist in the development of the resources, the stabilization of the economies, and the orderly marketing of the products of the Western Hemisphere. At the same time its lending power was increased from $200,000,000 to $700,000,000.

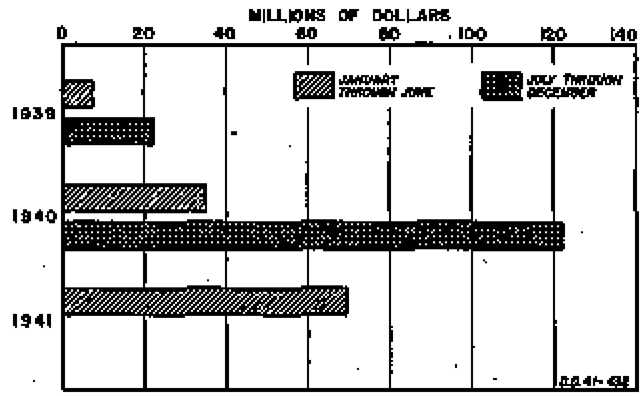

Figure 9.—Loans Authorized by the Export-Import Bank for Latin American Countries.

Source: Export-Import Bank of Washington.

Following the grant of this additional authority, loans authorized by the Bank for Latin American countries increased sharply, amounting to $188,650,000 up to August 15, 1941, or almost 60 percent of the total of $321,000,000 authorized for these countries since the Bank was established.[12] Loans made during the past year included $20,000,000 to Brazil for the construction of a steel mill, in which $25,000,000 in Brazilian funds was also to be invested. Another project is the development of rubber and other tropical products in Haiti, for which $5,000,000 was advanced. Loans have also been granted to various other Latin American countries for the purchase of United States agricultural and industrial products.

In recent months the problem of developing the resources of the other American countries appears to have become less one of providing credits and dollar exchange—our increased purchases of raw materials have alleviated these difficulties—but rather one of priorities. In this respect the Government has expressed its intention to aid in promoting the most important projects. With reference to the construction of the steel mill in Brazil, for example, the State Department announced on July 9 that priority aid would be provided by the Office of Production Management in obtaining steel, machinery, and other equipment.

With the exception of credits advanced to Finland in the winter of 1939-40, China is the only country outside the Western Hemisphere to receive Export-Import Bank assistance since the outbreak of war in Europe. Three credits aggregating $95,000,000 were established during 1940 to finance the sale of American supplies to China. Repayment of these credits and others previously granted[13] is provided for largely out of shipment of tung oil, tin, tungsten, and other strategic materials. In addition to assistance rendered by the Export-Import Bank, the Stabilization Fund announced, on April 25, 1941, a $50,000,000 credit for China.

Foreign Funds Control and Foreign Trade.

Control over foreign funds and foreign exchange transactions administered by the Treasury under the President's executive order of April 10, 1940, and subsequent extensions—which now directly apply to 32 foreign countries and affect more than $7,000,000,000 of foreign-owned assets in the United States—affords a system of restrictions on foreign trade and other transactions which parallels and reenforces in many respects other measures affecting trade.

Export and import transactions come within the purview of foreign funds control because of the prohibitions and restrictions applied with respect to transfers of credit and other financial transactions—which are the indispensable counterpart to the movement of goods. In addition to this indirect but extremely effective check, the Treasury's authority under the freezing order extends to "any transaction for the purpose or which has the effect of evading or avoiding the foregoing prohibitions." Moreover, transactions involving property in which any blocked country or its nationals has "any interest of any nature whatsoever"—with respect to which the powers mentioned are to be exercised—are broadly defined to include, among other things, "any export or withdrawal from the United States to such foreign countries." The Treasury's control over transactions involving such property is exercised by the issuance or refusal of licenses—either general or specific, as the case may be—and is enforced, as far as merchandise trade is concerned, through the customs administration.

Foreign funds control was undertaken by the United

[12] Actual disbursements out of the $321,000,000 total, however, amounted to only about $82,200,000 through August 15, 1941. Of the latter amount only $58,600,000 was still outstanding.

[13] Total loans authorized for China by the Export-Import Bank have amounted to $138,200,000, of which, through June 30, 1941, $56,200,000 had been actually disbursed and $77,600,000 was outstanding.

States for reasons quite different from those which have ordinarily prompted the establishment of exchange control by other countries. In most instances foreign countries have resorted to such measures as a means of conserving their own exchange resources abroad. By contrast, the adoption of control by the United States was, initially, for the purpose of protecting assets in this country belonging to nations which had fallen under alien occupation and no longer had freedom of choice in the use of their resources.

This protective control was first applied on April 10, 1940, to the assets of Denmark and Norway upon the invasion of those countries by Germany, and was extended to the Netherlands, Belgium, and Luxemburg on May 10, 1940, to France on June 17, 1940, and to other invaded countries in turn as they fell victims to Axis aggression.

The freezing orders apply in principle not only to the governments and nationals in Europe of the countries affected but also to their possessions and nationals in other parts of the world. The Treasury, however, has issued a variety of exemptions in the form of general licenses to avoid restricting unduly legitimate transactions by these governments and nationals situated outside the occupied countries. Such exemptions have been particularly important, for example, in the case of the Netherlands Indies, with which commercial transactions are now subject only to very minor restrictions.

While protection of property belonging to victims of Axis aggression was the major purpose of the first freezing orders, the control has since been greatly expanded as to both scope and purpose. On June 14, 1941, an executive order was issued freezing German and Italian assets as well as those of all other Continental European countries not affected up to that time. The purpose of this action was not only "to prevent the liquidation in the United States of assets looted by duress or conquest," but also "to prevent the use of the financial facilities of the United States in ways harmful to national defense and other American interests" and "to curb subversive activities in the United States." [14]

The extension of the control to the remaining countries of Europe was made "with a view to implementing the control of German and Italian assets in this country and in view of the interrelationship of international financial transactions." It was indicated at the time, however, that the freezing control would be lifted through the medium of general licenses with respect to certain of these countries subject to receipt of assurance from their governments that such licenses would not be used to evade the purposes of the control. It was also stated that transactions under general licenses would be subject to reporting and careful scrutiny. General licenses of this character have since been issued for Sweden, Switzerland, the U. S. S. R., Spain, and Portugal.

[14] Statement released by the White House on June 14, 1941.

Insofar as Continental Europe is concerned, the volume of trade affected by the freezing orders was not large. The British blockade and navicert system had already reduced that trade to a mere trickle permitted the few remaining neutral nations. While foreign funds control has made possible a more careful check on exports to these countries, its chief effect has been to prevent the use of blocked funds by the Axis for other purposes detrimental to our interests.

On the other hand, the freezing of European assets did affect an important volume of trade in another direction—that with Latin America. As mentioned above, the "nationals" of a blocked country include such nationals, broadly defined, wherever they may be. Germans and Italians, as well as nationals of other blocked countries, have long played a prominent role in trade and industry throughout the world. While their activities in many areas had already been circumscribed or brought to an end by the war, Germans and Italians remained unrestricted in Latin America, where in many cases they were engaged in anti-American pursuits.[15]

The order of June 14 afforded a means of curtailing these activities. The application of the freezing order to all nationals of blocked countries, however, would have entailed serious disadvantages in trade with Latin America. It would have been difficult for traders and bankers here to determine whether or not their Latin American contacts were blocked nationals within the meaning of the order. Moreover, it was recognized that, among firms which might be so classified, there were many whose interests were consistent with inter-American solidarity and security.

With a view to causing the minimum interference with legitimate inter-American trade, therefore, the Government accepted responsibility for determining which firms and individuals in Latin America were to be treated as nationals of Germany and Italy. For this purpose there was issued on July 17 a "Proclaimed List of Certain Blocked Nationals," containing the names of more than 1,800 persons and business institutions (subsequently increased to about 2,100) who were to be subject to the freezing order for all purposes. It was provided, furthermore, that no article under export control could be exported to persons on the list except under special circumstances and subject, of course, to the issuance of an export license. In addition, it was ordered that a license must be obtained from the Treasury for any exportation or importation in which any person named in the list had an interest.

At the same time the Treasury issued a general license permitting inter-American trade transactions and financial transactions incidental thereto involving persons not on the list but who were otherwise blocked nationals within the meaning of the order. Financial

[15] See, for example, statement released on January 8, 1941, by the Office for Coordination of Commercial and Cultural Relations Between the American Republics (published in the State Department Bulletin for January 11, 1941).

transactions by such persons not incidental to trade, however, remained subject to specific license in each case.

The most drastic effects of the freezing orders on trade have been visible in the case of Japan, whose assets were frozen on July 25 following that country's occupation of French Indochina. Shipments to Japan had already been reduced toward the end of 1940 by export control, which covered many items most in demand by that country. A substantial volume of export trade in licensed articles or those not yet subject to control remained, however, while imports from Japan remained unrestricted and continued to yield that country useful dollar exchange. The extension of foreign funds control to Japan brought all financial and import and export transactions involving Japanese interests under control of this Government. This action, together with retaliatory measures by Japan, had the practical effect of bringing trade between the two countries to a standstill.

Foreign funds control was extended to China at the same time that it was applied to Japan, but for quite different reasons. Control over Chinese assets was instituted at the request of the Chinese National Government at Chungking to assist in strengthening its foreign trade and exchange position. While trade with the occupied areas, as with Japan, virtually ceased, the restrictive effects of the control on transactions with free China were lifted by means of general licenses issued for the National Government and the Central Bank of China and for various American, British, Netherland, and other non-Japanese banks in China.

Control Over Shipping Facilities.

Developments growing out of the war have also necessitated control by the Government over still another aspect of foreign trade, namely, ocean transportation. The shortage of shipping—resulting from German attacks on British and neutral vessels and an immense expansion of requirements—has made itself acutely felt throughout the world.

While progress has been made both in combating the threat to shipping and in undertaking new construction, the production of defense articles for export and the increased demand for imported raw materials may be expected to press against available transportation facilities for some months to come. Control of shipping in order to give preference to the most vital import and export cargoes has consequently been necessary.

Enactment of the Ship Warrants Law on July 14, 1941, gave the Maritime Commission authority to establish a formal control of this nature. In actual practice, however, allocation of cargo space for materials most urgently needed had already been exercised for several months before that time through informal arrangements between the Commission, acting with the advice of the Office of Production Management, and ship operators.

Under the new measure the Commission is empowered to issue warrants to American and foreign vessels giving them precedence in the use of harbor facilities, including loading and unloading, repairs, bunker fuel, and other ship supplies. Priority is thus granted to vessels and ship operators cooperating with the defense program in carrying the most vital import and export cargoes. While the warrants system does not make compliance mandatory, it is a very compelling instrument. Failure to cooperate on the part of either American or foreign operators would entail extremely serious disadvantages, since they could have no certainty regarding the use of essential port facilities without a warrant.

By the same means the Maritime Commission is able to regulate more effectively ocean freight rates, thus strengthening the informal agreements previously reached with American-flag ship operators. On July 30 the Commission announced a new scale of maximum time charter rates, effective August 1, materially reducing previous rates.

Centralized Control by the Economic Defense Board.

Under the impact of 2 years of war abroad, the United States Government has become a "foreign trader" on a multibillion dollar scale. It procures out of its own resources vast quantities of war supplies for transfer to embattled nations whose triumph is vital to our security. It also undertakes directly or assists in the procurement of goods required by other countries whose welfare is essential to national and hemispheric security and provides financial aid to many of these countries to assist in their economic development and to combat the disruptive effects of the war. It purchases and imports great stores of strategic and critical materials to hold in reserve and to meet the current needs of defense production.

In addition to participating directly in exports and imports on an increasing scale, the Government has found it imperative to assume control in one way or another over almost all other aspects of trade. Most export commodities are subject to licensing requirements, and this control is virtually complete in categories of importance to national defense. Foreign exchange and financial transactions with many foreign countries and their nationals are under official control and are blocked whenever they involve benefits to nations whose policies menace American security. Maritime transportation is controlled to give precedence to shipments most urgently required, while less essential imports and exports must wait their turn.

Although their major purposes have been clear, it was inevitable that, in the rapid development of such far-reaching emergency controls over foreign trade,

(Continued on p. 25)

the seasonal factors for passenger-car sales to arrive at a set of factors for the entire group. Seasonal correction factors were made to average 100 for each series in every year.

The daily average index for each type of business for each month was divided by the corresponding seasonal adjustment factor to obtain the index corrected for seasonal variations for that kind of business in each month.

Combination of Indexes.

Aggregate dollar sales of all retail stores were obtained by simply adding estimated dollar sales described above. Indexes of average daily sales of all retail stores were obtained by weighting each kind of business by the ratio of its sales in the 5 years 1935–39 to sales of all retail stores in the same period. Seasonally adjusted indexes of sales of all retail stores were obtained by computing a weighted average (using the same weights) of the separate seasonally adjusted series.

In building up indexes of sales of durable goods stores and nondurable goods stores it was decided to include jewelry stores, for which a good monthly series was available, in the durable goods group, while allocating the rest of the "other retail stores" group to the nondurable goods group. A series of sales of jewelry stores accordingly was built up from the independent store sample of the Bureau of the Census. It was adjusted to the 1935 and 1939 Censuses by the procedures described above. The number of working days computed by the Board of Governors of the Federal Reserve System for department stores was used to obtain average daily sales. Finally, the series was seasonally corrected by the 12-month moving average method.

Aggregate sales of durable goods stores were obtained by adding dollar sales for (1) automotive stores, (2) household furnishings stores, (3) building materials and hardware dealers, and (4) jewelry stores. Daily average indexes with and without seasonal adjustment, were computed by weighting the indexes for each of these four classifications by the proportion which its sales bore to sales of all four classes of stores in the 1935–39 base period. Sales of nondurable goods stores were derived by a similar process from combining with appropriate weights the sales indexes of the remaining types of stores.

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there should have been some overlapping of functions, differences in criteria, and variation in effectiveness. The increasing necessity for complete coordination between economic policies and their integration with foreign policy as a whole led to the creation on July 30 of the Economic Defense Board.

In the Executive Order establishing the Board, the field of "economic defense" is broadly defined to embrace all aspects of foreign trade and other international economic and financial activities. Within this field the Board is instructed to advise the President on essential measures and functions; coordinate the policies and actions of other departments and agencies to assure unity and balance; develop integrated plans for coordinated action by other departments and agencies and use all appropriate means to assure that such plans are carried into effect; make investigations on the relationship of economic defense to post-war economic reconstruction; and review existing or proposed legislation and make recommendations for such additional legislation as may be necessary.

While the objectives and methods of economic defense policy have already been indicated by previous measures and actions, certain phases on which stress would be placed were mentioned by the Vice President, as chairman of the Economic Defense Board, on September 17, 1941, in announcing the transfer to that agency of the Office of Export Control. The Vice President stated that a "determined intensification" of the policy of preventing shipments to Axis-dominated countries was necessary; that other nations still free, particularly other American countries, must get enough goods to maintain the stability of their economies insofar as possible; and that increased supplies of critically needed materials must be obtained, with further adjustments in shipping to achieve this goal and with particular emphasis on securing additional supplies from other Western Hemisphere countries.

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September 1941, grain prices advanced 38 percent on the average; cotton and cottonseed prices were up 97 percent, meat animals 46 percent, chicken and eggs 36 percent, and dairy products 26 percent.

The result has been a 25-percent increase in cash income from farm marketings during the first 8 months over the like period a year earlier. The price advance has given farmers a supplementary source of income by enabling them to redeem and sell at higher prices commodities placed under loan with the Commodity Credit Corporation in prior years.

For the year as a whole, cash income from marketings is expected to be about 10 billion dollars, as compared with 8.4 billion in 1940. Government payments will probably raise the farmers' total cash income to a level approaching the 1924–29 average of 10.8 billion dollars. Such an increase will be relatively larger than the expansion of income in the economy as a whole.

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